CPUC Docket: I.19-09-016
Exhibit Number:
Witness: Margaret A. Meal

**PREPARED REPLY TESTIMONY OF MARGARET A. MEAL
ON BEHALF OF THE CITY AND COUNTY OF SAN FRANCISCO**

**REGARDING PROPOSED BANKRUPTCY PLAN OF REORGANIZATION OF
PACIFIC GAS AND ELECTRIC COMPANY**

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February 21, 2020

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SECTION 1. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Q1. Please state your name and title.

A. My name is Margaret Meal. I am presently employed by the City and County of San Francisco ("San Francisco" or "City") Public Utilities Commission ("SFPUC") as Acquisition Analysis Manager for the Power Enterprise.

Q2. Please describe your current job responsibilities and background.

A. I am responsible for supporting the SFPUC's access to low-cost debt financing to meet Power Enterprise's capital needs. I am also responsible for policy development and analysis, economic analysis and business planning, and analysis and assessment of power markets and commercial opportunities. I monitor and analyze current and proposed state and federal energy policies and regulations, rate making, rate design and cost structures for electric utilities, and risk assessment of power supply alternatives on behalf of the SFPUC. I have worked in the electric power industry for my entire professional career (over thirty years), primarily as a consultant advising business interests, public agencies, investors, lenders, and regulatory agencies on financial and economic issues, including asset valuation, risk assessment, financing alternatives, utility cost of capital, and ratemaking. I have provided written and oral testimony to this and various other state public utility commissions on numerous occasions. My statement of qualifications is attached as Attachment A to this testimony.

Q3. Please briefly describe the City's interest in this case.

A. Pacific Gas and Electric Company ("PG&E") is the investor-owned utility that serves San Francisco. Therefore, the citizens of San Francisco are impacted by PG&E's rates, regardless of whether they take gas and electric service solely from PG&E, or are customers of San Francisco's publicly owned utility (Hetch Hetchy Water and Power) or San Francisco's community choice aggregation program ("CCA"), CleanPowerSF. In addition, San Francisco has made an offer to PG&E to acquire certain PG&E electric distribution and transmission assets used to provide electric service to San Francisco. However, it is my understanding that San Francisco's offer to PG&E, as well as other offers made to PG&E by other public agencies (including the Nevada Irrigation District, South San

Joaquin Irrigation District, and the Valley Clean Energy Alliance) are outside of the scope of this proceeding.[1]

Q4. What is the purpose of your testimony?

A. It is my understanding that PG&E and its holding company ("PG&E Corp.") both filed for bankruptcy on January 29, 2019. It is also my understanding that PG&E's bankruptcy Plan of Reorganization[2] ("Plan") must comply with the requirements of Assembly Bill ("AB") 1054, which include that this Commission:

- approve PG&E's Plan and resolution of PG&E's bankruptcy, including PG&E's governance structure, as being acceptable in light of its safety history, criminal probation, recent financial condition, and other factors deemed relevant by the Commission;
- determine that PG&E's Plan and resolution of PG&E's bankruptcy are
  - (i) consistent with the state's climate goals as required pursuant to the California Renewables Portfolio Standard Program and related procurement requirements of the state, and
  - (ii) neutral, on average, to the ratepayers of the electrical corporation;
- determine that PG&E's Plan and resolution of PG&E bankruptcy recognize the contributions of ratepayers, if any, and compensate them accordingly through mechanisms approved by the Commission, which may include sharing of value appreciation.[3]

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[1] San Francisco is also a creditor of PG&E and a party to the bankruptcy cases of PG&E and its holding company, PG&E Corporation (U.S. Bankruptcy Court, District of Northern California, Case Numbers 19-30088 and 19-30089).

[2] The Plan of Reorganization referred to throughout this testimony is the Debtors' and Shareholder Proponents' Joint Chapter 11 Plan of Reorganization dated January 31, 2020 (Docket #5590 of the U.S. Bankruptcy Court, District of Northern California, Case 19-30088).

[3] Public Utilities Code § 3292(b).

The main purpose of my testimony is to describe my concerns with whether PG&E's post-bankruptcy financial condition under its Plan, as described in its Prepared Testimony ("Testimony")[4], meets the requirement of ratepayer neutrality in AB 1054. Specifically:

- PG&E's Plan does <u>not</u> provide PG&E with financial strength and flexibility, at emergence from bankruptcy or over the long term.
- PG&E's Plan is <u>not</u> neutral, on average, to ratepayers, at emergence from bankruptcy or over the long term.

I am also concerned that:

- PG&E's Plan and Testimony provide insufficient information regarding the crucial issues of governance structure and safety.
- PG&E's request to preclude consideration of issues in the Commission's Safety Culture OII (I.15-08-019) has no basis and is contrary to the public interest and the Commission's obligations.

Q5. Do you have any recommendations on ways to improve PG&E's Plan?

A. Yes. I would recommend that the Commission:

- Prior to a decision on PG&E's Plan, require PG&E to provide necessary relevant information, in particular with respect to the proposed Regional Restructuring Plan and safety and operational metrics, and allow parties an opportunity to review and comment on such information.
- Reject PG&E's request to preclude consideration of structural alternatives in the Commission's Safety Culture OII.
- Disallow PG&E from recovering from ratepayers costs associated with its bankruptcy and emergence from bankruptcy.
- Require PG&E to consider asset sales and restructuring of long-term contracts that could improve PG&E's financial condition upon its emergence from bankruptcy.

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[4] PG&E's Prepared Testimony (dated January 31, 2020).

- Require PG&E to consider alternatives to its current management and operational structures that could improve PG&E's service upon its emergence from bankruptcy, as proposed in the Safety Culture OII.

Q6. Would implementation of your recommendations be sufficient to address all of your concerns with PG&E's Plan?

A. No. While implementation of my recommendations could improve PG&E's Plan, they would not necessarily resolve all of my concerns with PG&E's Plan, such as PG&E's financial strength and flexibility upon emergence from bankruptcy and over the long term, and whether the Plan is neutral, on average, to ratepayers, upon PG&E's emergence from bankruptcy and over the long term.

SECTION 2. PG&E'S REORGANIZATION PLAN DOES NOT PROVIDE PG&E WITH FINANCIAL STRENGTH OR FLEXIBILITY POST-BANKRUPTCY (SCOPING MEMO SECTION 4)

Q7. Please summarize PG&E's Testimony regarding its financial condition, pursuant to Pub. Util. Code § 3292(b)(1)(C).

A. PG&E's Testimony, Volume 1, Chapters 2-3, focus on its financial condition, specifically its financial strength and flexibility under its Plan. Broadly, PG&E concludes that its Plan will provide PG&E with the financial strength and flexibility it needs to emerge from bankruptcy. However, PG&E's assessment is relatively narrow, as it is limited to its financial condition upon its emergence from bankruptcy, and it leaves its future financial condition largely dependent upon factors outside of its control and/or to be determined after its emergence from bankruptcy. See, for example, PG&E's Testimony, Volume 1, at 1-13:

> **Financial Condition** [Pub. Util. Code § 3292(b)(1)(C); Governor's Letter at 4]
> - PG&E has sufficient funding to emerge from Chapter 11
> - PG&E will be financially healthy upon emergence with access to debt and equity capital, including to fund wildfire prevention and other infrastructure investments

Q8. Based on PG&E's Testimony, do you have concerns about PG&E's financial health upon emergence from Chapter 11, or over the longer term, post-emergence?

A. Yes. I have three primary concerns. First, upon emergence, PG&E's Plan results in a capital structure that includes high levels of debt relative to PG&E's rate base (high leverage), especially as compared to PG&E's debt levels when it was a financially healthy entity. This higher leverage results in higher financial risk and limited financial flexibility and capacity going forward, especially when considering PG&E's capital spending needs (and need for additional debt) over the next few years. Second, PG&E leaves ratepayers at risk regarding PG&E's ability, after emergence, to re-finance a portion of its debt by issuing securitized bonds. Both of these two concerns are detailed further below. Third, these additional risks and uncertain financial condition mean that PG&E's Plan is not ratepayer neutral, on average. This concern, among others, are detailed in Section 3 of my testimony, which focuses on ratepayer neutrality.

Q9. Please summarize PG&E's Plan in terms of its levels of debt, debt leverage, and future financial flexibility and access to capital.

A. Overall, PG&E's Plan replaces existing debt with lower cost debt. On top of the existing/replaced debt of $21 billion, PG&E's Plan also includes $14.6 billion of <u>additional</u> debt spread across both PG&E Corporation (HoldCo) and its primary operating subsidiary, PG&E (the Utility). However, the Plan, in and of itself, does not include a rate increase or any change in PG&E's rate base, so does not provide for any underlying change in revenues. With no change in revenues, all else equal, more debt means more leverage, more risk, and higher costs of capital for PG&E and its ratepayers.

Table 1. Additional Debt in PG&E's Plan

	Pacific Gas and Electric Co. ("Utility")	
1	**Existing Utility Debt, all replaced with new debt**	**$21.5 billion**
	Incremental Debt at Utility	$5.8 billion
	New Temporary Utility Debt	$6.0 billion
	Debt Proceeds Used to Pay DIP financing in full	($2.0 billion)
2	**Total Additional Utility Debt**	**$9.8 billion**
	PG&E Corporation ("HoldCo")	
	New HoldCo Debt	$4.8 billion
	Debt Proceeds used to pay Existing HoldCo debt in full	($0.7 billion)
3	**Total Additional HoldCo Debt**	**$4.1 billion**
(2+3)	**Total Additional Debt**	**$13.9 billion**
(2+3)/1	**Additional Debt as a % increase over and above PG&E's existing/replaced debt of $21 billion**	**+65%**

More specifically, as shown in PG&E's Testimony, Table 2-1, as well as PG&E's description of how its obligations will be satisfied under its Plan, PG&E proposes to replace, in an equal amount, existing debt of $21 billion, and to issue $14.6 billion in new, additional debt. The PG&E Plan increases total debt by 65%, as follows:[5]

In turn, this additional debt creates additional leverage (debt as a percentage of total capital). Total capital can be roughly represented by total book value of long-term assets and/or total weighted average rate base. Here, for comparison purposes, total debt as a percentage of total weighted average rate base is used to measure relative leverage.[6] Comparing this metric across the period 2016-2018 to PG&E upon emergence (projected to occur in 2020) shows a significant increase in leverage (5-28 percentage points). PG&E's Plan increases leverage for the Utility alone, and the Utility and the HoldCo combined, and with or without inclusion of the $6 billion in "temporary" debt, as shown in

[5] Amounts here are shown in further detail in Attachment B.

[6] Debt as a percentage of rate base is used here for simplicity and due to the lack of detail on credit metrics provided in PG&E's Testimony. This metric is different from the credit metrics for leverage typically quoted by rating agencies, but relative comparisons across these metrics would be similar. Rate base is a valid measure of comparison as it is indicative of the depreciated book value of PG&E's long-term assets.

Table 2 below. Further, to the extent that the $6 billion in "temporary" debt is replaced with $7 billion of securitized debt,[7] but is <u>not</u> considered to be "off balance sheet," the increase in leverage will be somewhat higher on each measure.

Q10. Why are you comparing post-emergence leverage to leverage during the period 2016-2018?

Table 2. Increase in Leverage and Financial Risk in PG&E's Plan[8]

	Debt/Rate Base Avg 2016-2018 *	Debt/Rate Base Upon Emergence 2020
Utility only, excluding $6 billion temporary debt	56%	61% (+5%)
Utility only, including $6 billion temporary debt	56%	74% (+18%)
Utility + HoldCo, excluding $6 billion temporary debt	57%	71% (+14%)
Utility + HoldCo, including $6 billion temporary debt	57%	85% (+28%)

* For the period 2016-2018, there was no temporary debt; i.e. temporary debt 2016-2018 = $0.

A. I am using the period 2016-2018 because it is the most recent period for which PG&E has demonstrated a reasonable level of financial strength, as measured by its credit ratings and stock prices. The higher leverage in PG&E's Plan relative to leverage 2016-2018 demonstrates a significant increase in risk exposure. As shown in Figure 1, in 2016 and through September 2017, PG&E's credit ratings rose from BBB to A- (while PG&E's retail rates were steadily rising). PG&E's risk exposure to wildfires was not yet widely recognized. After the Wine Country fires in October 2017, although PG&E's retail rates continued to rise, PG&E's stock price dropped significantly, followed by a three-notch drop in its credit ratings from A- to BBB- during 2018, and then a drop to below investment grade in January 2019. This comparison shows that rate increases are not sufficient to ensure higher ratings or ratings improvement.[9]

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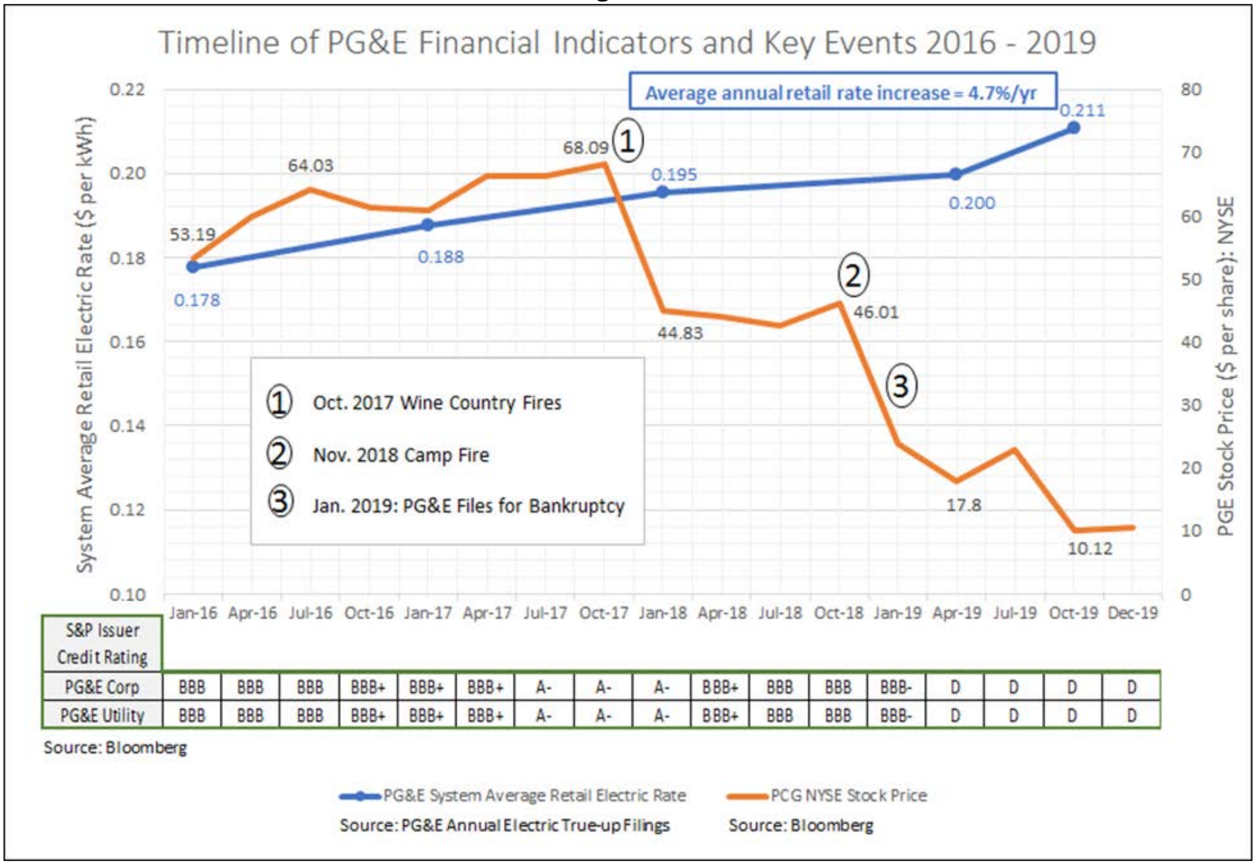
[7] PG&E Prepared Testimony, Volume 1, at 2-15, lines 20-22.

[8] Calculations for this metric are shown in further detail in Attachment B.

[9] As recently forecast by PG&E, PG&E expects its electric rates to increase at 4% per year and its gas rates to increase at 7% per year over the next five years. Future rate increases of this magnitude would help to strengthen PG&E's credit ratings, but are not necessarily sufficient, and depend upon CPUC and FERC review that the spending and rate base increases are reasonable and prudent. See PG&E's 8-K (dated February 18, 2020), Slide 41 (see Attachment C).

Figure 1.



S&P Issuer Credit Rating	Jan-16	Apr-16	Jul-16	Oct-16	Jan-17	Apr-17	Jul-17	Oct-17	Jan-18	Apr-18	Jul-18	Oct-18	Jan-19	Apr-19	Jul-19	Oct-19	Dec-19
PG&E Corp	BBB	BBB	BBB	BBB+	BBB+	BBB+	A-	A-	A-	BBB+	BBB	BBB	BBB-	D	D	D	D
PG&E Utility	BBB	BBB	BBB	BBB+	BBB+	BBB+	A-	A-	A-	BBB+	BBB	BBB	BBB-	D	D	D	D

This comparison also shows that PG&E's financial strength and financial flexibility under PG&E's Plan are weak, particularly compared to an earlier period when PG&E was in better financial condition and had investment grade ratings. This comparison also raises concerns about whether PG&E can achieve investment grade credit ratings under its Plan.

As detailed further in Section 3, I also use this comparison to show that PG&E's Plan is not ratepayer neutral, on average, due to the increase in leverage and increase in financial risk for ratepayers that result from PG&E's Plan.

Q11. Why does higher debt leverage result in higher risks and costs for PG&E and its ratepayers?

A. All else equal, higher debt leverage generally results in higher risks and therefore higher costs for several reasons, including:

- Larger debt service to support, which creates less financial flexibility
- Higher probability of default

- Magnification of exposure to unexpected disruptions
- Higher borrowing costs (interest rate on debt) and reduced access to debt going forward to meet capital needs
- Higher cost of equity
- Higher likelihood of (and need for) a greater level of regulatory scrutiny

Further, PG&E's Plan includes higher levels of secured debt (as opposed to unsecured). That burden further lowers future flexibility, reduces the ability to issue incremental secured debt as capital investments are made, and increases the cost of new debt that is unsecured, as unsecured debt is paid only after senior secured debt payments are made.

Q12. Why is reduced access to debt going forward, and higher costs for additional debt, a concern for PG&E and its ratepayers?

A. Future financial capacity and the ability to raise capital is critical for PG&E to be able to meet its future capital needs at a reasonable cost. Higher costs for new capital, post-emergence, increases rates for ratepayers (assuming the new capital spending is authorized by this Commission and/or the Federal Energy Regulatory Commission). Moreover, PG&E's going-forward capital needs are likely to be significant, and may be constrained given the Plan's leverage upon emergence from bankruptcy, which, in turn weakens PG&E's financial strength and financing flexibility going forward.

One example of PG&E's need for additional debt, post-emergence through at least 2023, is illustrated by PG&E's quarterly presentations to its investors. Since at least 2014, PG&E has been forecasting rapid growth in its rate base as it upgrades and modernizes its system (such that new investments exceed the on-going reductions in rate base due to depreciation). As shown in Figure 2 below, prior to the Wine Country fires in late 2017 (and prior to PG&E's recognition of the significant spending needed for wildfire mitigation), PG&E had already been planning to add nearly $10 billion to its rate base of just under $30 billion over just a few years (2014-2017). Since late 2017, PG&E's forecast of its rate base additions has accelerated, driven at least in part by the capital needs of its $8.2 billion wildfire mitigation plan as shown in Figure 3 below (PG&E estimates as of May 2019).

Figure 2. PG&E's forecasted additions to rate base have accelerated due to newly-identified capital spending on wildfire mitigation investments (at least in part)[10]

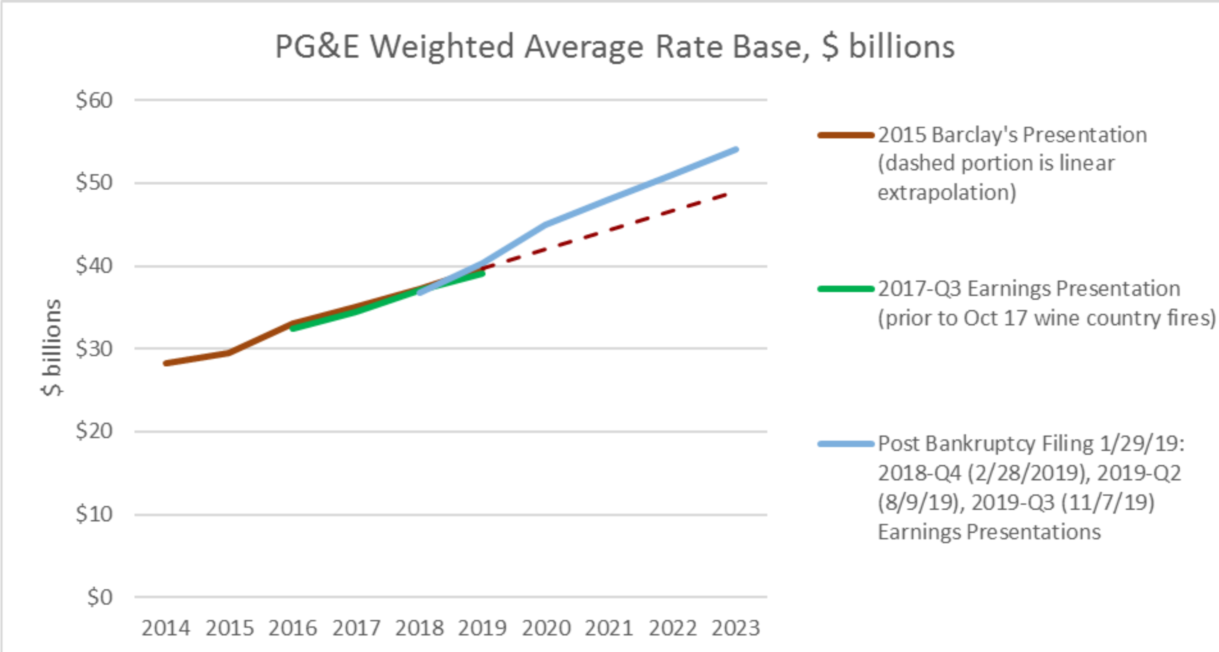
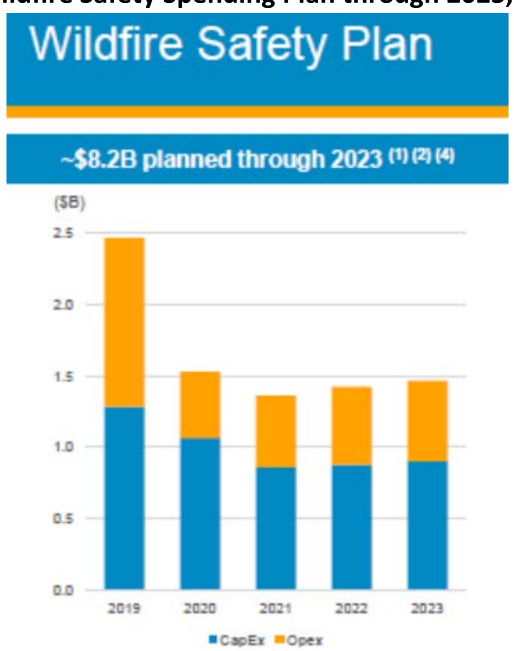


Figure 3. PG&E's Wildfire Safety Spending Plan through 2023, as of May 2, 2019[11]



[10] See the referenced presentations on PG&E's website at http://investor.pgecorp.com/news-events/events-and-presentations/default.aspx

[11] See PG&E's 2019 First Quarter Earnings Presentation (dated May 2, 2019), Slide 3, estimating $8.2 billion in new operating and capital spending for wildfire costs through 2023 (Attachment D) also available at,

PG&E recently increased and accelerated its Wildfire Safety Plan planned spending from $8.2 billion through 2023 to $11.7 billion through 2022.[12] Even before the billions in spending for wildfire safety, mitigation and system hardening were identified, PG&E was planning on making significant capital expenditures (about $6 billion annually 2017-2019) to maintain and upgrade its existing infrastructure.[13] PG&E's recent estimates of both its capital expenditure needs ($40 billion over 5 years) and resulting rate base growth (from $40 billion to $60 billion in 5 years)[14] will require billions of dollars of additional funding needs for PG&E, in addition to what is already contemplated in its Plan. PG&E's reduced access to debt going forward and higher costs for additional debt as a result of its Plan will lead to higher costs for these increased capital expenditures, which in turn will lead to higher rates.

Moreover, this situation could lead to deferral of planned work. Figure 4 below shows a snap shot of PG&E's spending plans for upgrades to urban substations in November 2017 versus November 2018. Comparing the graphs on the right-hand side of each slide (% of Urban Substations Upgraded and % San Francisco Substation Modernized) indicates that the completion dates (and the associated capital spending) have moved out as much as six years, from 2019 to 2025.

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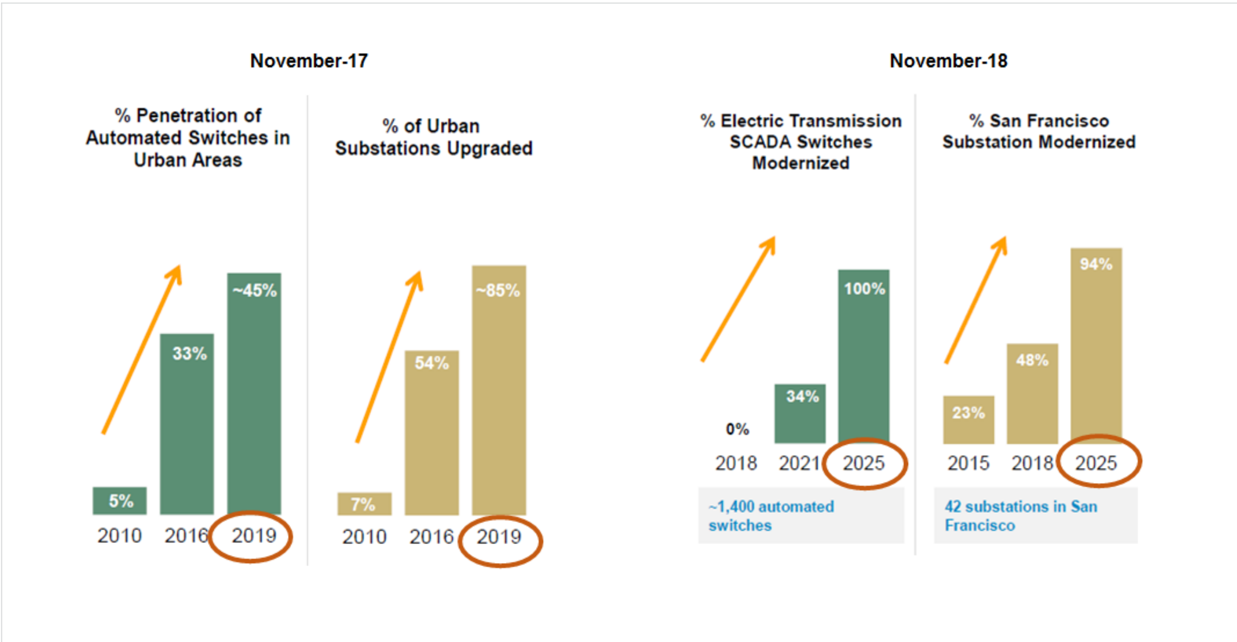
http://s1.q4cdn.com/880135780/files/doc_financials/2019/q1/Earnings-Presentation-Q1-2019_Final.pdf.

[12] PG&E's 8-K report dated February 18, 2020, Business Outlook, Slide 31 (see Attachment C).

[13] See, for example, PG&E's Fourth Quarter Earnings Presentation (dated February 18, 2016), Slide 11 (Attachment E). Also available at, http://s1.q4cdn.com/880135780/files/doc_financials/2015/Q4/Earnings-Presentation-Q4-2015-FINAL.pdf

[14] PG&E 8-K, Business Outlook, Slides 29, 30, 32 (see Attachment C).

Figure 4. Capital Spending for Urban Upgrades Needed Through at Least 2025[15]



Q13. What other evidence do you have regarding PG&E's financial risk exposure, upon emergence from bankruptcy and over the longer term?

A. First, PG&E's Testimony includes an additional $2 billion of short-term debt, and the Commission's authorization for that short-term debt is requested in this proceeding.[16] This additional short-term debt is not included in any of the leverage analysis provided in my testimony above. This short-term debt increases risks for PG&E's ratepayers. Moreover, and as discussed further in Section 3, because interest on short-term debt is recoverable from ratepayers as an interest expense in the normal course, this additional debt means that PG&E's Plan is not ratepayer neutral, on average.

PG&E's Testimony confirms that the additional $2 billion in short-term debt authorization is specifically needed, at least in part, due to PG&E's bankruptcy: "PG&E anticipates higher collateral posting requirements associated with PG&E's business and energy procurement activities <u>when</u>

[15] See PG&E's Business Update (dated November 3, 2017), Slide 20, http://s1.q4cdn.com/880135780/files/doc_downloads/2018/November-2017-Business-Update.pdf (Attachment F) and PG&E's Business Update (dated November 5, 2018), Slide 17, http://s1.q4cdn.com/880135780/files/doc_presentations/2018/Business-Update-Presentation-Q3-2018.pdf (Attachment G).

[16] PG&E Prepared Testimony, Volume 1, at 2-26, lines 4-9.

compared to pre-Chapter 11 filing."[17] PG&E's Testimony does not describe how it intends to mitigate this acknowledged increase in debt, or the increased risk or costs created for ratepayers.

Second, PG&E's Chapter 11 filing, in and of itself, increases risk, as it casts doubt and uncertainty regarding PG&E's ability to achieve and maintain investment-grade ratings, or the even higher BBB+ and A- ratings it has achieved in recent years.[18] For example, as part of its methodology for rating regulated private electric and gas utilities, Moody's states,

> Assessing the execution of business plans over time can be helpful in assessing management's business strategies, policies, and philosophies and in evaluating management performance relative to performance of competitors and our projections. A record of consistency provides us with insight into management's likely future performance in stressed situations and can be an indicator of management's tendency to depart significantly from its stated plans and guidelines.[19]

While the credit profile of California investor-owned utilities has generally been strengthened by the support provided by California's passage of AB 1054, Moody's has also indicated that PG&E's credit profile has been weakened by PG&E's bill credits to customers impacted by PG&E's Public Safety Power Shutoff events.[20]

Q14. How is PG&E proposing to deal with this additional risk exposure to achieve ratepayer neutrality?

A. In general, PG&E prefaces its ability to emerge from bankruptcy with investment grade ratings, and in turn financial strength and financial flexibility, as possible only with "constructive regulatory application"[21] of AB 1054. In response to a Data Request, PG&E states that "constructive"

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[17] *Id*., at 2-27, lines 3-5 (emphasis added).

[18] See Figure 1 in Section 2.

[19] Moody's, "Rating Methodology: Regulated Electric and Gas Utilities" (June 23, 2017) at 26 (emphasis added). This document was provided with PG&E's Response to TURN's Eighth Set of Data Requests, Question 1 (dated February 5, 2020) (Attachment H).

[20] Moody's, "Regulated electric utilities – California – Customer bill credits after power shutoffs signal weakening political support," (October 31, 2019). This document was provided with PG&E's Response to TURN's Eighth Set of Data Requests, Question 1 (Attachment I).

[21] PG&E Prepared Testimony, Volume 1, at 3-1, lines 16-17, with further detail in Section 3, below.

implementation of AB 1054 means that "there should be a market perception of predictability and fairness with respect to implementation of AB 1054, and that such implementation should support the regulatory compact."[22] However, in response to other Data Requests, it is clear that PG&E's concept of "constructive" implementation of statutory and regulatory requirements actually extends much further. PG&E even goes so far as to state that "<u>optimal public policy under the circumstances involves no imposition of monetary fines or penalties for prepetition conduct</u>."[23]

PG&E's call for "constructive" regulatory treatment places a huge burden on regulators, and in turn ratepayers, to support PG&E's financial position, debt capacity, and credit strength through future rate increases. Ratepayers' acceptance of that burden is an integral part of PG&E's Plan and its requests for Commission approval of its proposals in this proceeding.

I would further note that a higher degree of "constructive" regulatory treatment, in and of itself, equates to higher risks and costs for PG&E's ratepayers. PG&E acknowledges in its Testimony that legislative and regulatory treatment figures heavily into a regulated utility's bond and credit ratings.[24] However, future regulatory and legislative support to reduce the elevated ratepayer risk exposure is not guaranteed, and comes at a cost. For example, after its downgrade of PG&E in January 2019, Moody's observed that its view of PG&E's regulatory environment had deteriorated, and may not improve for some time:

- "The Company [PG&E] is increasingly reliant on extraordinary intervention by legislators and regulators, which may not occur soon enough or be of sufficient magnitude to address these adverse developments." [25]
- "We view California as a very challenging political environment for PG&E. California utilities tend to receive a higher level of attention and scrutiny from both the media and the public and issues can often become contentious and litigious. <u>PG&E is in a</u>

[22] PG&E Response to TURN's Ninth Set of Data Requests, Question 4 (dated February 7, 2020) (Attachment J).

[23] PG&E Response to Public Advocates Office Third Set of Data Requests, Question 7 (dated November 15, 2019) (Attachment K).

[24] PG&E Prepared Testimony, Volume 1, at 3-2, line 29 through 3-3, line 7.

[25] Moody's, "Credit Opinion: Pacific Gas & Electric Company, Update following rating downgrade" (January 12, 2019), at 1 (Attachment L).

particular vulnerable position, given its history of safety incidents and governance issues over the last several years as well as the aforementioned wildfires."[26]

Q15. What about your second concern, regarding PG&E's requests for debt authorizations in this proceeding, to support a potential future issuance of securitized debt?

A. PG&E is overly reliant on securitization and does not make clear the full negative impact to ratepayers regardless of whether securitization is ultimately approved and implemented. Post-emergence, PG&E contemplates issuance of $7 billion of securitized debt to replace $6 billion of "Temporary Debt" to be authorized in this proceeding. This securitization structure, whether or not it is ultimately implemented, increases risk for PG&E's ratepayers, and in turn, is not ratepayer neutral, on average, for PG&E's ratepayers.

Q16. What debt authorizations is PG&E requesting in this proceeding?

A. Fundamentally, PG&E is asking for Commission authorization now to borrow amounts that would otherwise be funded by shareholders. PG&E's requested authorization allows PG&E to issue long-term debt (permanent, not temporary) at the Utility if PG&E is not successful in completing a securitization, rather than replacing the temporary debt with equity.

> Specifically, PG&E requests authorization (1) to issue approximately $11.85 billion in long-term debt as contemplated by the Noteholder RSA and according to the terms described therein; (2) up to $11.925 billion in additional long-term debt to finance PG&E's Plan and subsequent exit from Chapter 11, (3) up to $6 billion in short-term debt authority for the Utility's working capital and short-term debt needs for exit from Chapter 11 and on-going working capital and short-term needs and contingencies after exit; and (4) authorization of up to $11.925 billion in short-term debt to temporarily finance PG&E's exit from Chapter 11 which would be refinanced with the long-term debt already described in (2) and/or in connection with PG&E's anticipated request for a securitization transaction.[27]

Q17. Please summarize the securitization structure described in PG&E's Testimony, and the impact of the securitization on PG&E's credit metrics.

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[26] *Id*., at 4 (emphasis added).

[27] PG&E Prepared Testimony, Volume 1, at 2-25, lines 5-15 (emphasis added).

A. PG&E's Testimony states "[The Temporary Utility debt] portion of the Utility's debt would be paid off, if approved by the Commission, from the proceeds of a post-emergence rate-neutral $7 billion securitization transaction. Alternatively, the $6 billion would be retired with proceeds from shareholders."[28] PG&E also states that, "[w]hile the plan is not dependent on the approval of the post-emergence securitization, the approval of such securitization will improve the Utility's credit metrics, which will reduce the cost of financing over time for the benefit of all customers…"[29]

In any event, the Temporary Debt at the Utility will be replaced, either by new debt or new equity. If $6 billion of debt is replaced by $7 billion of debt, leverage increases, so risk increases (as described earlier in my testimony). Another key credit metric for the rating agencies – funds from operations (FFO) divided by total debt – is reduced, because FFO is driven by rate levels (revenues) and operating costs.[30] Absent a rate increase, all else equal, this metric (for which higher is better) declines with additional debt.

If $6 billion of debt is instead replaced by equity (issued by PG&E Corp, the HoldCo), credit metrics will improve. This may weaken equity return to shareholders, but would "reduce the cost of financing over time for the benefit of all customers."[31]

Q18. Is securitized debt viewed by the rating agencies as "off balance sheet," such that credit metrics would be improved accordingly?

A. Securitization debt can be considered "off balance sheet," improving credit metrics, but not in all cases. PG&E's own Testimony states, "The rating agencies treatment of securitization differs…Moody's views securitization as on-credit debt and does not remove securitized debt from the balance sheet for calculating its credit metrics."[32] Therefore, per PG&E's own analysis, funding this

[28] *Id*., at 2-17, line 11 through 2-18, line 1 (emphasis added).

[29] *Id*., at 2-2, lines 9-11 (emphasis added).

[30] *Id*., at 3-3, lines 10-14: "Rating agencies look to certain leverage metrics—in particular, the relationship between FFO and a company's total debt and debt-equivalents (e.g., FFO-to-debt ratio), and significantly weigh this ratio in determining the financial risk profile of a utility."

[31] *Id*., at 2-2, lines 11-12.

[32] *Id*., at 3-4, lines 17-22.

portion of capital needs with securitization proceeds instead of equity will likely weaken Moody's view of the company.

Q19. Is PG&E's proposed securitization structure neutral, on average, for PG&E's ratepayers?

A. No. According to PG&E, the Temporary Debt "will be used to pay wildfire claims at exit and therefore will be the financial responsibility of shareholders, not customers."[33] However, the securitization structure creates a new non-bypassable charge for ratepayers, and recovers wildfire claims that would not otherwise be recovered from ratepayers. This ratepayer charge would be theoretically "off set" by less-certain "credits" from other sources (for example, shareholders) back to ratepayers. PG&E's Testimony does not provide details on these mechanics. PG&E states, "PG&E will use proceeds from the realization of the shareholder certain tax benefits, including Net Operating Losses, and other credits to provide rate reductions so customers, on average, will not pay the associated cost of the securitization charges."[34]

The securitization structure shifts risks from shareholders and/or bondholders to ratepayers, with no offsetting benefits for ratepayers. Critical to the relatively low cost of most securitization transactions is that the non-bypassable charge, by state law, continues to be imposed and collected, even in the event of a bankruptcy. If PG&E again files for bankruptcy, the non-bypassable charge would survive and continue to be paid by ratepayers until the securitization bonds are fully paid off. Under the securitization construct, it is ratepayers, not financial creditors, who would continue to bear the burden of funding the 2017-2018 wildfire liabilities. Therefore, ratepayers are in a much worse, not neutral, position if PG&E replaces other forms of capital with securitization debt to fund wildfire claims that should be paid by shareholders rather than ratepayers.

Q20. Does the securitization structure proposed by PG&E result in ratepayer contributions, and if so, does PG&E's proposal recognize those contributions or provide ratepayers with compensation?

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[33] *Id.*, at 2-15, lines 18-20.

[34] *Id.*, at lines 24-27.

A. As described above, the securitization structure requires ratepayer contributions, throughout the term of the securitization debt. The securitization is only possible due to the ratepayers' obligation to pay the non-bypassable charge that essentially guarantees that debt service on the bonds will be paid to bondholders, even if PG&E again falls into bankruptcy. PG&E neither recognizes that risk burden nor compensates ratepayers for taking that risk. PG&E only states that it intends to provide an ill-defined rate credit equal to the non-bypassable charge.

SECTION 3. PG&E'S REORGANIZATION PLAN IS NOT NEUTRAL, ON AVERAGE, TO RATEPAYERS (SCOPING MEMO SECTION 4.4)

Q21. Please summarize PG&E's Testimony regarding ratepayer neutrality.

A. PG&E's Testimony, Volume 1, at 1-13, lists three elements that determine the ratepayer neutrality of PG&E's Plan:

Neutral to Ratepayers [Pub. Util. Code § 3292(b)(1)(D)(ii), (E)]

- Plan does not cause any rate increase
- Plan saves interest expense for benefit of ratepayers
- Plan does not call for contribution from ratepayers

PG&E's Testimony, Volume 1, Chapter 10[35] provides some further detail on PG&E's interpretation of ratepayer neutrality, making it clear that its interpretation is essentially a snapshot in time, limited to the moment of PG&E's emergence from bankruptcy, and is limited to rate and bill impacts in isolation. PG&E states that its Plan is neutral, on average, to the ratepayers, "because the PG&E plan does not cause customers to pay more on average than they would in the absence of PG&E's reorganization under the Plan,"[36] and additionally, "[l]ikewise, changes in rates that occur as a result of other Commission decisions after PG&E's emergence from bankruptcy, and independent of

[35] Chapter 10 of PG&E's Prepared Testimony also covers rate impacts, customer contributions, and earnings adjustment mechanism, in addition to ratepayer neutrality.

[36] PG&E Prepared Testimony, Volume 1, at 10-1, lines 12-14.

the Plan, including prudence review, are not relevant to Section 3292(d)(1)(D) because they are not rate changes resulting from the Plan."[37]

Q22. Do you have concerns about PG&E's Testimony in terms of its interpretation of ratepayer neutrality, and its conclusion that PG&E's Plan is neutral to ratepayers, on average?

A. Yes, I have several concerns. First, PG&E's interpretation of ratepayer neutrality is too narrow. Second, even using that narrow definition, PG&E's Plan is not ratepayer neutral because (i) as described above, it limits PG&E's financial health and flexibility upon its emergence from bankruptcy, and (ii) those limitations may or will increase costs that will be recovered from ratepayers. Third, PG&E's claims of interest rate savings of over $1 billion for ratepayers do not support PG&E's determination of ratepayer neutrality because PG&E indicates that to the extent that interest rate savings are realized, PG&E will seek to offset those savings by requesting recovery of wildfire claims and/or other bankruptcy-related costs, to the benefit of shareholders, not ratepayers. Fourth, PG&E's estimate of $1 billion in interest rate savings is overstated. Improving PG&E's methodology shows that interest rate savings are likely to be less than $600 million, and could be essentially zero.

Q23. Please explain your first concern, that PG&E's definition of ratepayer neutrality is too narrow.

A. As explained above, PG&E's interpretation of ratepayer neutrality is based only on <u>rate levels</u>, and does not consider other important ratepayer considerations, such as <u>service levels</u> and <u>risk exposure</u>. At a minimum, regardless of rate levels, PG&E's Plan should be held to a ratepayer neutrality standard that is representative of ratepayer risk exposure when PG&E was a financially healthy company.

Further, PG&E measures ratepayer neutrality only <u>at one instant in time</u>, the moment when PG&E emerges from bankruptcy. As a result, there are no assurances that PG&E's Plan will be neutral to ratepayers, on average, over the short-term or longer term. PG&E's assessment leaves future

[37] *Id*., at 10-3, lines 17-21.

ratepayer neutrality contingent upon specific outcomes that can only be determined in future Commission decisions, or by PG&E actions post-emergence that may or may not occur.[38]

Q24. Why should ratepayer neutrality be based on more than rate levels (or the lack of rate increases) upon PG&E's emergence from bankruptcy?

A. As PG&E recognizes in its Testimony, PG&E's objectives for its service to ratepayers go well beyond rate levels in isolation. Chapter 9 of Volume 1 of PG&E's Testimony states PG&E's Mission as follows:

> Our Mission: To <u>safely</u> and <u>reliably</u> deliver <u>affordable</u> and <u>clean</u> energy to our customers and communities every single day, <u>while building the energy network of tomorrow</u>.[39]

Integral to provision of safe, reliable, affordable and clean electric service is PG&E's ability to achieve and maintain sufficient financial strength and financial flexibility to contain financing costs, maintain service levels, and to ensure access to capital to build for the future. As a result, beyond maintaining affordability (typically measured by rate levels), PG&E's Plan cannot be "ratepayer neutral" if it results in constraints on PG&E's financial strength and financial flexibility (typically measured by financial risk exposure).[40]

Q25. What are your concerns regarding PG&E's approach to evaluating ratepayer neutrality only <u>at one instant in time</u>, the moment when PG&E emerges from bankruptcy?

A. First, PG&E's difficulties do not arise solely from this Plan. They stretch back to before PG&E filed for bankruptcy protection early last year to protect itself (not its ratepayers) from the steady deterioration of its financial condition related to its liability for wildfires in 2017 and 2018. At least in terms of ratepayer risk exposure, ratepayer neutrality should be measured back to a time where

[38] See previous discussion regarding the impact of regulatory treatment on PG&E's financial strength in Section 2 above.

[39] PG&E Prepared Testimony, Volume 1, at 9-4, lines 7-9 (emphasis added).

[40] Ratepayer neutrality is similarly not achieved if PG&E's Plan results in reduction in service levels (e.g. reliability, safety and clean power content). My testimony does not focus on ratepayer neutrality in terms of service levels.

PG&E was financially healthy, and be forward looking to ensure that PG&E's financial condition will improve, or at least not lead to future declines.

Second, much of PG&E's Plan and its ability to operate efficiently post-emergence is contingent upon future behavior by PG&E and on PG&E's ability to maintain its financial strength and access to capital going forward. As discussed in detail in my response to Q14, PG&E's ability to maintain financial strength and access capital depends, to a large extent, on factors outside of PG&E's control, such as "constructive" implementation of statutes and regulatory requirements. The outcome of these factors is far from guaranteed. There is also no discussion in PG&E's Testimony regarding the potential consequences or any potential solutions or alternatives in the event that necessary conditions are not met, especially over time. If PG&E is not held to a ratepayer neutrality standard going forward, there are no assurances that any residual costs or risks resulting from PG&E's bankruptcy and Plan of Reorganization are or will be ratepayer neutral.

Q26. Please explain why PG&E's Plan is not ratepayer neutral, on average.

A. As shown and discussed above, Figure 1 provides a snap shot of PG&E's rate levels and risk exposure over the past few years, together with the various events that concluded with PG&E's filing for bankruptcy protection in January 2019, resulting in PG&E's Plan.

Even using PG&E's narrow definition, PG&E's Plan is not ratepayer neutral because (i) as detailed in Section 2, PG&E's Plan limits PG&E's financial health and flexibility upon its emergence from bankruptcy, and (ii) those limitations increase risk exposure for ratepayers and/or costs that will be recovered from ratepayers. This is not ratepayer neutral, on average.

Further, there are no assurances that PG&E's Plan will bring PG&E's financial condition and access to capital to where it was prior to PG&E's Chapter 11 filing. PG&E anticipates only that upon reorganization it will or expects to:

- "have the ability to raise adequate capital post-emergence"[41]
- "be able to access the investment-grade debt market"[42]

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[41] PG&E Prepared Testimony, Volume 1, at 3-1, line 9.

[42] *Id*., at lines 10-11.

- "achieve investment grade bond ratings on a secured basis"[43]

PG&E's Testimony provides no commitment that these benchmarks will be achieved, or any expectation that these minimum criteria will be met upon emergence or over the longer term. For example, it is my understanding that PG&E has not yet met with the rating agencies directly regarding PG&E's financial condition and likely ratings.[44]

Q27. Have you identified any other costs that are part of PG&E's Plan and Testimony that are not ratepayer neutral, on average?

A. Yes. There are several cost categories associated with PG&E's emergence from bankruptcy that do or could result in costs that are passed through to ratepayers, resulting in higher rates. This is not ratepayer neutral, on average. As highlighted earlier for the increase in risk exposure, one example where these costs for ratepayers is real is PG&E's request for Commission approval of a $2 billion increase in PG&E's existing $4 billion short-term debt authorization.[45] PG&E notes that the need for this increase in short-term debt authorization is driven, at least in part, by PG&E's Chapter 11 filing:

- "[The $6 billion short-term] credit facility [would be] for general working capital, when PG&E emerges and no longer has access to the debtor-in-possession financing, [and is] is a critical factor for PG&E's credit ratings."[46]
- "PG&E anticipates higher collateral posting requirements associated with PG&E's business and energy procurement activities when compared to pre-Chapter 11 filing."[47]

This $2 billion increase request brings with it additional fees, and when drawn, additional interest costs. Absent a prohibition on recovery of such costs from ratepayers, costs associated with an

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[43] *Id*., at line 13.

[44] PG&E Response to EPUC's Fourth Set of Data Requests, Question 3 (dated February 12, 2020) (Attachment M).

[45] PG&E Prepared Testimony, Volume 1, at 2-26, lines 4-9: "PG&E also requests authorization for the Utility to incur up to $6 billion in short-term debt to fund increased short-term capital requirements and general working capital requirements, and in connection with potential contingencies. This represents a $2 billion increase to the Utility's $4 billion short-term debt authorization that was in place prior to its Chapter 11 filing."

[46] *Id*., at 2-26, lines 11-14.

[47] *Id*., at 2-27, lines 3-5.

increase to PG&E's existing short-term debt authorization would be recoverable from ratepayers through higher rates, so are not ratepayer neutral, on average.

Q28. Can you provide an example where PG&E's Plan could either increase rates or increase risk exposure, or both, going forward?

A. As detailed in Section 2 above, PG&E has significant capital needs, and, in turn, financing needs, going forward. As compared to its access to capital prior to bankruptcy, it is possible or likely that PG&E's Plan will leave PG&E with a weaker credit profile and limited access to new financing (debt and equity) to meet those needs. For ratepayers, this increases risk exposure to capital spending deferrals, may translate to higher costs (due to higher financing costs), and/or, to the extent capital investments are actually deferred, reductions in service levels. This is not ratepayer neutral, on average.

Q29. What is your third concern, about PG&E's claims of over $1 billion in interest rate savings for ratepayers, particularly as a demonstration that PG&E's Plan is ratepayer neutral, on average?[48]

A. The potential for interest rate savings of over $1 billion for ratepayers does not support PG&E's determination of ratepayer neutrality. In response to Data Requests, PG&E indicates that to the extent that interest rate savings are realized, PG&E will seek or may seek to offset those savings by requesting recovery of costs specifically related to its bankruptcy and Plan of Reorganization, including costs related to resolving wildfire claims.

More specifically, TURN's Seventh Set of Data Requests, Questions 1 and 2, ask whether PG&E's implementation of AB 1054's ratepayer neutrality requirement would include commitments by PG&E not to seek any rate recovery of any of the following costs:

- Any costs PG&E may pay to resolve PG&E liability claims resulting from the 2017 and 2018 wildfires.
- Any costs PG&E may pay to professionals (attorneys, financial consultants, etc.) related to the Utility's or Corporation's bankruptcy.

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[48] *Id*., at 1-13.

- Any financing-related fees or costs (including but not limited to hedging costs) related to the Utility's or Corporation's bankruptcy, including bankruptcy-related costs incurred prior to the filing of the bankruptcy petition.

As to the first cost category listed above, PG&E states only that it has made no determination regarding whether it will seek to recover such costs, leaving it with the option to do so in the future. With respect to the last two categories of costs, PG&E responds that AB 1054's ratepayer neutrality requirement allows for the costs to be included in rates, as long as the PG&E costs recovered are "less than or equal to the interest cost savings." Moreover, PG&E responds that it will use this cost recovery tool for "bankruptcy-related costs," such as "certain financing-related fees and costs, including Noteholder RSA fees, hedging costs, Utility bridge fees, and other related costs," by reducing the rate reductions attributable to the interest rate savings.[49]

Because PG&E leaves open the question of recovery of the costs listed above, together with the potential magnitude of these costs as shown below, there is no way to conclude at this time that PG&E's Plan and emergence from bankruptcy are actually neutral to ratepayers.

Q30. Has PG&E provided estimates of the potential magnitude of these "bankruptcy-related" costs for ratepayers, particularly relative to PG&E's estimates of interest rate savings for ratepayers?

A. PG&E's responses to Data Requests have not detailed the amounts of these costs, but do confirm that PG&E may seek to recover these costs from ratepayers. Measures of some of these costs are provided in PG&E's recent 8-K filed with the Securities and Exchange Commission (February 18, 2020).[50] For example, this report identifies "Chapter 11 Costs." The total of professional fees and financing costs alone (actuals as reported) from the Petition Date (January 29, 2019), through December 31, 2019, and as provided as guidance for 2020 is $1.8 billion dollars. These and other costs for which PG&E may seek recovery going forward are summarized in Table 3. These amounts easily exceed any estimate of interest rate savings for ratepayers, and are also payable immediately, while the

[49] PG&E's Response to TURN's Seventh Set of Data Requests, Question 1 (dated February 7, 2019) (Attachment N).

[50] PG&E's 8-K, dated February 18, 2020, http://d18rn0p25nwr6d.cloudfront.net/CIK-0001004980/e3db0fe2-7e5a-43c4-8d33-48fe621bd19f.pdf.

interest rate savings will accrue over time. The relevant pages of PG&E's 8-K report are included in Attachment C.

Table 3. Examples of items for which PG&E may make future requests for cost recovery from ratepayers	
Wildfire Claims	$25.5 billion[51]
Chapter 11 Costs (petition date through 2020)	$1.8 billion[52]

Clearly, certain of the categories of costs that PG&E may seek to recover in the future could or would dwarf and completely wipeout PG&E's estimated interest cost savings. In order to help ensure that PG&E's Plan and emergence from bankruptcy are and remain ratepayer neutral, the Commission should disallow PG&E from seeking recovery of these costs.

Q31. Please explain your conclusion that PG&E's estimate of $1 billion in interest rate savings is significantly too high.

A. In essence, PG&E proposes to replace existing, higher cost debt with new, lower cost debt, which, on average, has a longer term – an analogy would be to re-finance a home mortgage with ten years remaining with a new home mortgage with a 30-year term, but at a lower interest rate. The total dollars of interest paid over the life of the longer-term mortgage will exceed the total dollars of interest paid over the mortgage with only ten years remaining, unless the interest rate savings are substantial. PG&E's calculations are misleading in how they account for the difference in term between the existing debt and the new, longer-term debt.

In response to Data Requests, PG&E provided the details of its estimate of interest rate savings of $1 billion.[53] I have identified two ways that PG&E's estimate overstates the savings, and is generally misleading. My evaluation is summarized below and presented in more detail in Attachment P.

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[51] 8-K, Business Outlook, Slide 8 (see Attachment C).

[52] 8-K, PG&E 2019 Full Year and Fourth Quarter Earnings, Slide 13, using PG&E's 2019 reported Chapter 11 legal, DIP financing, and other costs of $406 million, and Slide 33, PG&E's 2020 guidance of $1 billion of Chapter 11 costs after-tax, grossed up to pre-tax costs incurred of $1.4 billion, using PG&E's estimate of its statutory tax rate of 27.98% (see Attachment C).

[53] PG&E Response to CLECA's First Set of Data Requests, Question 2, Attachment 1, (dated February 4, 2020) (Attachment O).

First, PG&E's estimate uses unsupported assumptions for discount rates (to bring future interest payments to their present value) and duration of savings over the term of the bonds. The present value of the interest rate savings is very sensitive to these two assumptions. PG&E's discount rate is the expected interest rate on the new bonds (4.75%/yr). This discount rate is indicative only of that interest rate. Any discount rate higher than 4.75%/year <u>reduces</u> PG&E's "present value" estimate of $1 billion. A ratepayer's discount rate is based on the timing of how it receives its bill reductions, and cannot be based on a single element of PG&E's overall cost structure. Moreover, in response to a Data Request,[54] PG&E acknowledges that it has <u>never</u> used the interest rate on its debt to present-value future changes to revenue requirements, while it, and this Commission, have used the much higher authorized return on rate base (currently 7.8%).

Also, PG&E assumes that the difference between the average interest rate on the existing bonds and the average rate of the new bonds continues for 20 years. In fact, while the weighted-average maturity of the new bonds is 20 years, the weighted-average maturity of the existing bonds is lower, at 16.7 years. To demonstrate the sensitivity of PG&E's estimation methodology these assumptions, using a weighted average duration of 16.7 years (remaining term of the existing bonds) and a discount rate of 10.25% (PG&E's currently authorized return on equity) reduces PG&E's interest rate savings estimate of $1 billion to $600 million, a 35% reduction.[55]

Second, a more transparent and reliable estimate would remove the distortion of the duration and discount rate assumptions entirely, by calculating the difference between the annual interest expense for each year for both the existing bonds and the new bonds, over their remaining terms. From there, those differences are brought to their present value using a range of discount rates. This approach shows that near-term savings are replaced by long-term cost increases, as the new 30-year bonds remain in place for at least 10 years longer than the existing bonds.[56]

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[54] PG&E Response to TURN's Nineteenth Set of Data Requests, Question 1 (dated February 19, 2020) (Attachment Q).

[55] See Attachment P, page 1.

[56] This methodology does not include the cost of refinancing the shorter-maturity bonds when they mature and the outstanding principal balance is due. First, utility bonds typically have maturities that are aligned with the useful lives of the assets that are financed, so the existing debt does not necessarily need to be replaced, in part or in full. Second, interest rates at the time of refinancing could be higher or lower. Third, principal payments are excluded from this analysis because principal

I recommend relying on the more transparent and reliable methodology. Using that methodology, I estimate the interest rate savings to have a present value of $450-$600 million, about half of PG&E's estimate of $1 billion. I would also note that at discount rates below 4.75%, the present value of the savings is lower than $450 million. In fact, the nominal (undiscounted) interest rate savings are essentially $0.[57] PG&E's methodology does not recognize that while the interest rate savings are positive in the near term, those savings turn into higher costs and higher rates for ratepayers in the long term.

Q32. AB 1054 also requires PG&E's Reorganization Plan to recognize the contributions of ratepayers, if any, and compensate them accordingly through mechanisms approved by the Commission. Have you identified any parts of PG&E's Plan that do not recognize or compensate for ratepayer contributions?

A. From a financial perspective, PG&E's Plan requires substantial ratepayer contributions for PG&E's Plan to succeed. The Plan is a financial restructuring that leaves PG&E highly leveraged upon its emergence from bankruptcy, and from there, is dependent on massive capital spending and rate base growth (see previous discussion in response to Q2, above). This growth boosts shareholder earnings, which allows PG&E to de-leverage itself over time. PG&E's return to financial strength is only possible through ratepayer contributions due to steady rate increases going forward. Whether or not ratepayers are appropriately compensated for those contributions is entirely a function of PG&E's ability to prudently invest $40 billion of rate payer dollars over the next five years, and do so in such a way that provides ratepayers with safe, reliable, affordable and clean electric service.

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payments are not recoverable from ratepayers (depreciation and amortization expense is recoverable, with those amounts tied to the assets, not to how they were financed).

[57] See Attachment P, pages 2 and 3.

SECTION 4. OTHER CONCERNS REGARDING PG&E'S PLAN AND TESTIMONY (SCOPING MEMO SECTIONS 3.1, 3.5)

Q33. Can you please describe your concerns with the lack of information provided by PG&E regarding key details of its governance and operations once it emerges from bankruptcy?[58]

A. Yes, in particular I am concerned with:

- PG&E's proposed "Regional Restructuring Plan" ("RRP"); and
- Metrics to measure the safety of PG&E's operations once it emerges from bankruptcy.

My understanding is that PG&E has suggested several measures in its Testimony specifically to respond to PG&E's compliance with AB 1054, in particular the requirement that PG&E's governance structure be acceptable "in light of its safety history, criminal probation, recent financial condition, and other factors deemed relevant by the commission."[59] These suggestions include the RRP, as well as operational and safety metrics and an escalating enforcement process that provides for greater oversight if PG&E fails to meet the defined operational and safety metrics. These suggestions, while interesting, are undeveloped at this time.

PG&E's Testimony on its proposed Regional Restructuring Plan proposal is less than one page long and leaves the details of the proposal to be filled in at a later date.[60] The stated purpose of the proposal is to "improve responsiveness to and services for its customers."[61] However, in order to determine whether PG&E's proposal meets that goal requires consideration of specific RRP features, none of which are provided in the Testimony. Relevant RRP features that have not been provided include, but are not limited to:

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[58] San Francisco reserves the right to provide additional testimony on these and other issues pursuant to the Assigned Commissioner's Ruling and Proposals (issued in this proceeding on February 18, 2020).

[59] See Statement of Governor Gavin Newsom Regarding Debtors' Motion Pursuant to 11 U.S.C. §§ 363(b) and 105(a) and Fed. R. Bankr. P. 6004 and 9019 for Entry of an Order (I) Authorizing the Debtors and TCC to Enter into Restructuring Support Agreement with the TCC, Consenting Fire Claimant Professionals, and Shareholder Proponents, and (II) Granting Related Relief (Docket #5138 of the U.S. Bankruptcy Court, District of Northern California, Case 19-30088) (December 16, 2019). (Attached to this testimony as Attachment R).

[60] PG&E Prepared Testimony, Volume 1, at 5-36, lines 8-9.

[61] *Id*., at 5-35, line 30.

- Explanation of how the proposed decentralized approach with regionalization of its operations would work with the more centralized approach towards decision-making around safety, risk, and customer care in the reorganized PG&E.[62]
- Detail regarding how the RRP would be adequately resourced to be successful and address both the short- and long-term safety and operational needs of each local operating region.
- Costs of the RRP. PG&E plans to request approval of recovery of costs associated with implementation[63], but it is unclear what type of costs it would seek to recover. It seems likely that, at a minimum, costs associated with regionalization would include additional corporate overhead, such as regional officers, plus additional staffing and support systems.[64] It is also unclear how PG&E's proposal to recover costs associated with the RRP would be consistent with AB 1054's requirement that PG&E's Plan and the resolution of PG&E's bankruptcy be neutral, on average, to PG&E's ratepayers.
- Timing of implementation of the RRP. PG&E has stated that it will submit the RRP to the Commission for approval following consultation with the Governor's office.[65] However, it is unclear whether PG&E plans to submit the RRP to the Commission prior to the Commission's or the bankruptcy court's decision on the Plan, or post-emergence from bankruptcy.
- What happens if the Commission does not approve PG&E's RRP or the RRP fails? PG&E does not specify any solutions or alternatives in the event that the RRP is not executed as described in its Testimony.

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[62] *Id*., at 5-5, line 9 through 5-10, line 33.

[63] *Id*., at 5-36, fn.20.

[64] *Id*., at 5-35, line 34 through 5-36, line 2.

[65] *Id*., at 5-36, lines 9-11.

Throughout its Testimony, PG&E emphasizes that safety is a central part of its mission[66] and discusses many safety-related topics.[67] However, PG&E's Testimony is lacking in terms of metrics by which to measure a utility's actions and performance relative to its safety and operational goals. As acknowledged by PG&E, Governor Newsom has highlighted the need for strict, clearly defined operational and safety metrics and an escalating enforcement process that provides for greater oversight if PG&E fails to meet the defined operational and safety metrics.[68] PG&E has stated that, prior to its emergence from bankruptcy, it will propose to the Commission a set of proposed safety and operational metrics for Commission approval, as well as a system for identifying shortcomings and corrective actions.[69] Parties cannot reasonably evaluate safety and operational metrics that have yet to be created. PG&E's Testimony also states that, in the event that PG&E falls short of meeting these yet to be determined safety metrics, the Commission can intervene and require corrective actions, which "will serve as an early stage of potentially escalating Commission enforcement."[70] Again, however, without any details on what that process would look like, it is impossible for parties to evaluate whether appropriate enforcement mechanisms will be in place to ensure that PG&E is held accountable for the safety of its operations.

Further, counter to its proposal of "escalating Commission enforcement," PG&E has also asked the Commission to preclude consideration of alternative management and operational structures for PG&E in the Commission's Safety Culture OII.[71] The Commission should be able to consider the full spectrum of enforcement mechanisms at its disposal in order to ensure safe and reliable service to customers and keep PG&E accountable for the safety of its operations.

Considering the importance of the topics described above in determining PG&E's compliance with the requirements of AB 1054, PG&E's ideas require a great deal more detail and specificity. In

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[66] *Id*., at 9-4, lines 7-9.

[67] See PG&E Prepared Testimony, Volume 1, Chapter 5 (Utility Safety and Governance), Chapter 6 (Wildfire Safety), and Chapter 7 (Executive Compensation).

[68] PG&E Prepared Testimony, Volume 1, at 1-16, lines 4-12.

[69] *Id*., at 5-30, lines 21-27.

[70] *Id*., at 1-16, lines 19-24.

[71] *Id*., at 1-10, lines 7-9, and 2-14, lines 24-28.

addition, since each of these suggestions is central to ensuring that PG&E meets the requirements of AB 1054, parties should have the opportunity to review and comment on fully developed proposals, prior to a Commission decision on PG&E's Plan. While I am certainly aware of the June 30, 2020 deadline in AB 1054, PG&E's emergence from bankruptcy will have long-term consequences on ratepayers so parties and the Commission should have adequate information to evaluate PG&E's Plan and compliance with the requirements of AB 1054.

Q34. Can you please describe your concerns with PG&E's request to preclude consideration of certain proposals in the Commission's Safety Culture OII?

A. Yes. In its Safety Culture OII, the Commission is exploring alternatives to PG&E's current management and operational structures. As noted by PG&E in its Testimony, these alternatives include proposals to separate PG&E into separate gas and electric utilities or sell its gas assets; establish periodic review of PG&E's Certificate of Public Convenience and Necessity; modify or eliminate PG&E's holding company structure; and link PG&E's rate of return or return on equity to safety performance metrics.[72] Municipalization of all or portions of PG&E's service territory is also within the scope of the Safety Culture OII.[73] In its Testimony, PG&E requests that the Commission rule in the Safety Culture OII that "PG&E will not be forced to sell the gas business, to eliminate the holding company, or to municipalize and that the Commission will not institute a review of or make modifications to the Utility's certificate of public convenience and necessity."[74]

It is my understanding that municipalization has been ruled outside of the scope of this proceeding so parties cannot propose municipalization as an alternate to PG&E's Plan of Reorganization.[75] Based on that alone, it seems inappropriate for PG&E to suggest that the Commission should preclude consideration of municipalization in another open Commission proceeding.

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[72] *Id*., at 1-9, line 25 through 1-10, line 3.

[73] I.15-08-019, Assigned Commissioner's Scoping Memo and Ruling (December 21, 2018), at 12 ("Should some or all of PG&E be reconstituted as a publicly owned utility or utilities?") (Attachment S).

[74] PG&E Prepared Testimony, Volume 1, at 2-14, lines 24-28.

[75] Assigned Commissioner's Scoping Memo and Ruling (issued in this proceeding on November 14, 2019), at 7.

PG&E has also requested that the Commission put a "moratorium" on consideration of structural alternatives in the Safety Culture OII due to its RRP.[76] While the proposed initial time period for the RRP is unclear, based on their minimum time commitment to implement the RRP, the "moratorium" would presumably last for at least five years.[77] As I noted above, PG&E has proposed that its prospective safety and operational metrics include "escalating Commission enforcement." The Commission's regulation of PG&E should include any and all mechanisms at the Commission's disposal.

There is no record to support PG&E's request to preclude consideration of issues in another open Commission proceeding. Further, as PG&E implicitly acknowledges with its RRP idea, consideration of alternatives to PG&E's current management and operational structures is necessary to address the concerns raised by Governor Newsom.

SECTION 5. RECOMMENDATIONS TO IMPROVE PG&E'S REORGANIZATION PLAN AND ENSURE PG&E'S COMPLIANCE WITH AB 1054

Q35. Do you have any recommendations on mechanisms available to improve PG&E's Plan?

A. Yes. As discussed in the preceding section, the Commission should:

- Require PG&E to provide necessary relevant information, in particular with respect to the proposed Regional Restructuring Plan and safety and operational metrics, and allow parties an opportunity to review and comment on such information prior to a Commission decision on PG&E's Plan.
- Reject PG&E's request to preclude consideration of issues in the Commission's Safety Culture OII.

The Commission should also disallow PG&E from recovering from ratepayers any costs associated with its bankruptcy and emergence from bankruptcy.

[76] PG&E Prepared Testimony, Vol. 1, at 1-10, lines 7-9.

[77] *Id*., at 5-36, lines 11-13.

Reductions in debt load and increases in cash on hand could also address many of the deficiencies identified in my testimony. For example,

- Targeted asset sales or restructuring of long-term contracts. Assets sales could include, but are not limited to, offers like those made by San Francisco and other public agencies to acquire PG&E's electric distribution assets in order to provide publicly owned utility service to their constituents. Proposals like these could not only provide additional cash to reduce debt obligations and debt leverage, but could also reduce PG&E's service obligations and associated operational needs.
- Sale of parts of PG&E's business to qualified third parties, consistent with proposals being developed in the Safety Culture OII

The value of any of these solutions is necessarily case-specific, and will need to account for any impacts, positive or negative, on PG&E's ratepayers and the public interest more broadly.

Although implementation of these recommendations could improve PG&E's Plan, they would not necessarily resolve all of my concerns with PG&E's Plan, such as PG&E's financial strength and flexibility upon emergence from bankruptcy and over the long term, and whether the Plan is neutral, on average, to ratepayers, upon PG&E's emergence from bankruptcy and over the long term.

Q36. Does this conclude your testimony?

A. Yes.